

EXECUTIVE OFFICE OF THE PRESIDENT

BUREAU OF THE BUDGET

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BULLETIN NO. 57-7

February 5, 1957

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Commercial-industrial activities of the Government providing products or services for governmental use

1. Purpose. Bureau of the Budget Bulletin No. 55-4 of January 15, 1955, established policy and initiated a review of commercial-industrial-type activities conducted by the Government that provide services or products for its own use, which can be procured from private enterprise through ordinary business channels (referred to as commercial activities). This Bulletin gives further instructions with respect to: (a) the evaluation of commercial activities classified as services, (b) the termination of commercial activities, and (c) the starting of new commercial activities.

General Policy and Its Interpretation

2. Policy. It is the general policy of the administration that the Federal Government will not start or carry on any commercial activity to provide a service or product for its own use if such product or service can be procured from private enterprise through ordinary business channels. Exceptions to this policy shall be made by the head of an agency only where it is clearly demonstrated in each case that it is not in the public interest to procure such product or service from private enterprise.

3. Meaning of certain terms. The following interpretations apply to the preceding paragraph:

- a. In determining whether an activity is "commercial" in nature and "can be procured . . . through ordinary business channels," reference may be made to the Standard Industrial Classification Manual, to the availability of the service or product on a competitive basis, and to ordinary business practice with respect to procurement thereof. The inclusion of an activity in the manual will be generally considered indicative that it may be procured through ordinary business channels. There will be excluded as noncommercial, however, those functions which are a part of the normal management responsibilities of a Government agency or a private business of comparable size (such as accounting, personnel work, and the like). Information as to both source and ability of private enterprise to provide a product or service may be secured from the Business and Defense Services Administration of the Department of Commerce.

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- b. "Activities . . . for its own use" includes the activities of producing a service or product primarily for the use of the Government (whether the same agency or other agencies), even though some portion of the product or service is sold or given to the public. It includes activities which are to provide a service or product for the use of a Government agency in its official duties, even though the agency is engaged in carrying out a service to the public (e. g., the manufacture of mail bags or the generation of power at a Government institution). However, it excludes the activities of producing a service or product primarily to be sold or given to the public (e. g., the generation of power for sale to the public) and those primarily for the employees (e. g., the provision of quarters for rent to employees at remote locations).

The fact that this Bulletin does not deal with products or services provided directly to the public in no way relieves the agencies of keeping such activities under constant review and reevaluation as to the need for the Government to carry on such activities.

- c. "Start" means to begin any activity of a commercial nature in a location where it was not previously carried on by an agency within the preceding twelve months.

4. Costs and prices. The relative costs of Government operation compared to purchase from private sources will be a factor in determining whether to start or carry on a commercial activity in those cases where the agency head concludes that the product or service cannot be purchased on a competitive basis and cannot be obtained at reasonable prices from private industry.

Prices may be considered reasonable when the price to the Government is not greater than the lowest price obtained by other purchasers, taking into consideration volume of purchases and quality of the products or services.

In those cases where the product or service cannot be purchased on a competitive basis, nor at a reasonable price on a noncompetitive basis, it may be necessary to make a comparison of prices with costs of Government operation. In doing so, the costs of Government operation should be fairly computed and complete, covering both direct and indirect costs, including elements not usually chargeable to current appropriations, such as depreciation, interest on the Government's investment, the cost of self-insurance (even though it is unfunded); there shall also be added an allowance for Federal, State, and local taxes to the extent necessary to put the costs on a comparable basis. Care must also be exercised to see that the costs of procuring material from private sources are fairly computed and complete. They should be truly representative of the lowest price the Government would pay for the quantity and quality needed, taking into account all applicable indirect costs of the Government for such procurement.

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Evaluation of Services

5. Scope of evaluation. Each agency shall make an evaluation of all its commercial activities which are classified as services in Volume II of the Standard Industrial Classification Manual, Division I, Group Nos. 70-89, inclusive. Reports shall be made thereon with the following exceptions:

- a. There may be excluded activities which are outside the continental United States and the Territories of Alaska and Hawaii.
- b. Any activity at any one location which involves an equipment investment of less than \$5,000 and a product or service with an approximate annual value of less than \$25,000 shall be excluded.
- c. Government-owned, contractor-operated facilities may be excluded.

Evaluation reports should include all service activities previously reported in agencies' inventories and other such activities as were subsequently established or were not previously reported.

6. Purpose of evaluation. In making the evaluation the agency will: (a) determine whether or not each of these service activities should be continued in the light of the policies set forth in sections 2 to 4 above, (b) determine whether statutory changes are necessary to permit discontinuance, and (c) take appropriate steps to discontinue activities on the basis of the evaluation. In any case where it is determined to continue an activity, it should be curtailed in scope and volume to the extent practicable.

7. Reports on evaluation. Three copies of the evaluation reports exhibit 57-7A (copy attached) shall be submitted to the Bureau of the Budget on or before April 15, 1957. Up to 60 copies of this report form may be secured from the Bureau of the Budget Publications Unit, code 146, extension 616; if more copies are needed, the agencies should have them reproduced.

8. Applicability to the Department of Defense. A special time schedule is being established for the evaluation of service activities in the Department of Defense.

Terminating Commercial Activities

9. Prompt and orderly action. Except where statutory change is necessary to permit discontinuance of an activity, the agencies shall discontinue or curtail each commercial activity as soon as the agency head determines that it is reasonably possible to do so. Each agency shall exercise diligence in carrying out such actions in an orderly way and shall proceed on a reasonable time schedule. Adequate notice

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shall be given to the community and employees in advance of discontinuance or curtailment, and each agency shall assist employees as necessary in finding other employment. Where statutory change would be necessary to permit discontinuance, the agency head shall seek such changes promptly, submitting drafts of legislation or appropriation language, as may be required, to the Bureau of the Budget in the usual manner.

Control Over Starting New Commercial Activities

10. Steps to be taken before establishing new activities. No new commercial activity shall be started until, as a minimum, the head of the agency has:

- a. Ascertained that the product or service is necessary to the conduct of a governmental function.
- b. Provided a reasonable opportunity for private enterprise to indicate its ability to furnish the product or service.
- c. Determined, on the basis of the response from private enterprise, that the product or service cannot be supplied on a competitive basis or at reasonable price through ordinary business channels.
- d. Determined that it is not in the public interest to procure the product or service from private enterprise, either because it is not available on a competitive basis or at a reasonable price (as found under step (c) above), or because of overriding considerations of law, national security, or national policy.
- e. Made an adequate record that the foregoing steps have been taken.

Steps "b" and "c" may be omitted in those cases where overriding considerations of law, national security, or national policy require that the activity be conducted as a Government operation, but in such cases the head of the agency shall make an appropriate record of his findings and conclusions to that effect.

11. Reports on new starts. Each agency will make a report to the Bureau of the Budget by April 1, 1957, setting forth the following information with respect to each new activity approved for starting during the period from its previous inventory report to December 31, 1956, unless it involves an equipment investment of less than \$5,000 and a product or service with an approximate value of less than \$25,000.

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- a. Type of activity. Use the classification code number and title set forth in the Standard Industrial Classification Manual, and add such descriptive words as are needed to indicate exactly the activity being reported.
- b. Location.
- c. Purpose.
- d. Volume of capital assets on hand and on order as of December 31, 1956.
- e. Average current (December 31, 1956) number of employees and average number contemplated when activity is in full operation.
- f. Reasons requiring the establishment or expansion of the activity.
- g. Date of determination.

Agencies should keep appropriate records centrally in order that they may prepare similar reports in the future as may be required.

By direction of the President:

PERCIVAL F. BRUNDAGE
Director

Attachment